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Letters to John Smith

[Melbourne]

[1930]

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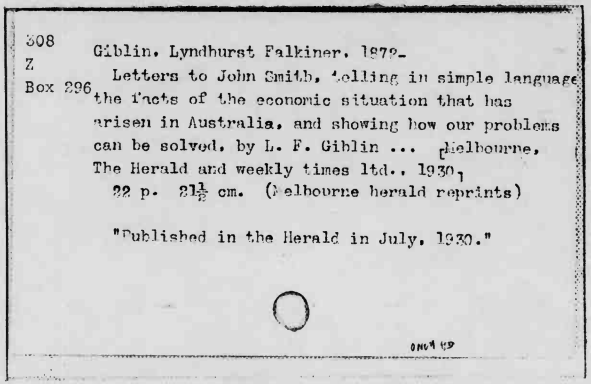

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LETTERS *to* JOHN SMITH

telling in simple language the facts of the economic situation that has arisen in Australia, and showing how our problems can be solved.

— *By* —

L. F. GIBLIN

Ritchie Professor of Economics.
University of Melbourne.

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Box 296

ISSUED GRATIS

Published in The Herald in July, 1930

No apology is necessary for the republication of these letters to John Smith, written for The Herald by Professor L. F. Giblin, Ritchie Professor of Economics at the Melbourne University.

They attracted such widespread attention when printed serially that readers urged that they should be made available in compact form for further study.

The letters deal in simple language with the position into which Australia has drifted today, and point the way back to industrial stability and national prosperity.

The author is one of the few outstanding economists in the Commonwealth.

He has no axe to grind for either capital or labor.

He reviews the position as he sees it from the expert's point of view.

After reading the letters in the following pages it is for John Smith to decide whether the advice given is not SOUND COMMON SENSE.

Oct 30, 1930 DA/Hec

The Basis of Wages

No. 1

DEAR John,—I want to talk first of all about the prospects of higher wages. Not higher wages with higher prices, but higher "real" wages that will buy more stuff. Real wages have had ups and downs, but on the whole have risen greatly in the last 100 years, so that average real wages in Australia are five or six times what our great-grandfathers in England earned when they were young. Wages will have ups and downs in the future as in the past, but on the whole real wages will go on rising with the growth of knowledge and invention. But for any given time and place there is always a limit beyond which wages cannot rise. They may rise higher in one trade, but it will be at the cost of wages in another trade. The average wage cannot go beyond a certain limit.

* * * *

There is also always a limit below which real wages cannot fall—the amount necessary to keep workers physically and mentally fit for their work, and to keep them from moving off to other countries.

Between these limits there is room for bargaining, and Arbitration and awards by Industrial Courts. Before the workers were organised wages tended to keep near the lower limit. As the unions grew strong, wages moved towards the upper limit. In the better organised trades in Australia, it is certain that wages are near the upper limit. That means that higher wages can be got in only two ways—with greater efficiency of production or at the cost of unemployment. You don't believe that? I don't expect you to all at once. When you have got that firmly in your head, then your feet will be on the straight track which leads to higher wages. Until you do come to believe it, you will be wandering in a circle in the bush. I have talked over this with you off and on the last thirty years, and sometimes you have agreed, but mostly not. If it takes another thirty years it will be well worth it. I am sure there is no other way to get what we both want—higher wages and a higher standard of comfort.

So let us look at some of the difficulties.

Efficiency means producing things—boots or wheat or milk, or giving services—railway transport or schooling or picture shows—at such a cost that people will buy them and go on buying them. Both management and labor are concerned, and you will only get the best results when they work together. High wages are a great stimulus to management to improve its side of the job. But it cannot improve more than a certain amount at any given time and place. If wages go up faster than efficiency, the cost of making these things must go up and prices must be raised. Higher prices mean lower real wages always, and in general they mean some industry going out of action in the long run, and therefore unemployment. But it's not always easy to see this in a particular industry.

* * * *

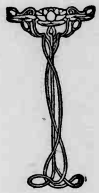
Industries divide into two classes. There are those which can ask higher prices without fear of competition from outside Australia. Milk, vegetables, gas, railway and motor transport are examples of such "sheltered" products, and the industries which produce them are called "sheltered" industries. On the other hand are the

industries which will lose their trade if they raise prices, because of competition from outside Australia—the "unsheltered" industries. These are the export industries, wool and wheat and butter and metals, and the industries which have to compete with imports, like most woollen and rubber goods and tools and machinery and kitchen gear. Some of these get such high protection from the tariff that they could raise prices a bit and still keep most of their trade. Others have no margin, and are completely unsheltered. There are all sorts and degrees of shelter, but the broad distinction holds (and is very important) between sheltered industries which can apparently raise their prices if wages rise beyond a certain point and unsheltered industries which certainly can't.

"Well," you will say, "then why should not your sheltered industries go on paying higher and higher wages?" I expect you can see the answer to that yourself, but I will try and supply one anyway in my next letter tomorrow.—Yours, etc.,

L. F. GIBLIN,
Ritchie Professor of Economics,
University of Melbourne.

July 8, 1930.



The Cause of Unemployment

No. 2

DEAR JOHN,—We were talking about the distinction between sheltered industries (like milk and gas) which can apparently raise their prices as wages rise, and so keep on in business; and unsheltered industries (like wheat and woollen mills) which cannot raise prices when their costs of production are higher, because, if they did, they would lose their trade.

The trouble about higher wages in the sheltered industries is that it means lower wages in the unsheltered industries. That is exactly what has been happening to some extent in England for the last few years. And it has probably been happening in Australia also. The unsheltered industries which are protected have managed to avoid this by getting more protection, which gives them a little shelter behind which they can raise prices. But other unsheltered industries, like wheat, cannot very easily be protected, and the wheat farmer for the last year or two has not been getting the basic wage for his labor. It's not called wages because he employs himself. But I expect you will admit that the wheat farmer, working any hours and any weather, is as much entitled to fair wages for his labor as any other man. He has not been getting it. He has been getting less because others in sheltered industries have been getting more.

* * * *

It is not hard to see why this is so and must be so. But it takes a little clear thinking and most of us don't get much practice. That's why I'm so keen that you will be able to keep young John at school long enough to learn a little geometry. It's a great help.

Suppose there is a rise in baker's real wages and bread goes up a penny a loaf to pay for them. Bread is a sheltered product—there is no competition from outside, and the price must be paid by everyone. The master baker "passes on" the higher cost of labor to the public. The "cost of living" goes up, wages are fixed on the cost of living, so that all other wages go up. (Not real wages, only nominal wages. Wages will only buy the same as before). The wage earner does not feel the extra penny on bread—he passes it on to his employer. He too passes it on by charging higher prices for his goods—if he can. If he produces or sells meat or milk or any other sheltered goods he can do this and raise prices enough to pay the extra wages he has to pay on account of higher baker's wages. Then we have another rise in the cost of living on account of meat and milk, and another rise in nominal wages, and again the passing on of the extra cost, first by wage earners in all industries, and then by the employers in the sheltered industries. But when the cost falls on an unsheltered industry, it cannot be passed on.

Consider a company engaged in zinc production, mining and smelting. Zinc is exported and the price is fixed in Europe or America, and our company will produce as much as it can at this price. If the cost of producing the zinc is increased through the rise in baker's wages (or any other cause), in the first place, and then through the consequent increases in wages, in the milk and meat and all other sheltered trades, what is the zinc producer to do? He cannot get a higher price for his zinc. He must cut down his operations and work only on the ore which

is richest or is most easily got or treated. That may put half his employes out of a job, and may mean closing down the mine.

* * * *

If it is a factory competing with imports, say, a woollen factory, instead of a mine, the result may be closing down the factory altogether, unless it can get higher protection by the tariff and so be able to raise its prices higher. But if it does, those higher prices for flannel, say, will be passed on in exactly the same way as the higher baker's wages from all the sheltered industries, until they are all carried by the unsheltered industries. In the end all the increase in wages in sheltered industry is passed on and on until it all falls on unsheltered industry. The amount that so falls will be roughly the amount by which real wages on sheltered industries were raised. This amount will fall equally on all those engaged in unsheltered industry. For some of these it will not matter much. For the wool and wheat grown on the best land, it will only lower the value of the land. For the very flourishing factory it will cut down the profits but may still leave it able to produce at a profit. But in every industry, land or mining or manufacturing, there are always a number of firms or individuals working with a bare margin of profit. Often there is a large proportion who can only just make the business pay. When you load these with the higher baker's wages, they can do nothing but go out of business, and you get unemployment or poverty in the unsheltered industries; and unemployment in the sheltered industries must follow in its train. This unemployment you can see round you today.

"Well," you may say, "why can't we get rid of these unsheltered industries and have nothing but sheltered industries which can raise wages to meet the needs of the worker?"

I expect you can see the answer to that too; but I must leave that till my next letter tomorrow. — Yours, etc.,

L. F. GIBLIN,
Ritchie Professor of Economics,
University of Melbourne.
July 9, 1930.

Wages Can be too High

No. 3

DEAR JOHN,—I was saying that if the sheltered industries, like railways and gas and milk, raise real wages, then the whole loss falls on the unsheltered industries which have to sell at a price fixed outside Australia. These unsheltered industries (such as wheat and woollen mills) will, of course, make an extra effort to improve their methods and cut down costs; but there are likely to be a lot of them working with a bare margin that will have to close down with much loss of employment. Then the question came, whether we could not do without these unsheltered industries, and have only sheltered industries, in which we could make wages what we please.

The first answer to that is this: Workers can get more than a certain wage in sheltered industry only because other workers in unsheltered industry are getting less than that wage. Higher costs — from higher wages or any other cause—are passed on and backwards and forwards between industries until they fall on an industry that can't pass them on—an unsheltered industry. Then the sheltered industry has finally got clear of the higher cost.

But if there was no unsheltered industry, or very little of it, the cost of the higher wages would never be effectively passed on; it would always be passed back again. Higher wages would be always balanced by higher prices, and higher prices would tend to keep ahead. The wage-earner would be like a dog chasing his own tail. After a while, we might get wages up to £100 per day. But bread would be £5 a loaf, and everything else, in proportion, and none any better off.

In the second place, we must in any case have a great deal of unsheltered industry, because we must have large exports. We have borrowed money abroad, publicly and privately, to make railways and roads and harbors and factories, and we have to pay the interest on it. The only way we can pay interest (or anything else) abroad is by shipping exports. Then there are a number of things we have to import, and the only way we can pay for them is by sending exports. No doubt we are learning to make more things and grow more things at a reasonable price, and we shall be able to reduce imports a good deal. But it takes time, and it will be a good many years before we get them down to £70,000,000 a year. Then there is the £30,000,000 a year of interest to pay abroad, so we must have at least £100,000,000 of exports to pay for these for a good many years to come.

* * * *

That means that at least one man in every six must be working in export industries. Then there are all the industries which have to compete with imports, and these also are unsheltered. So that it is clear that a big part of our industry must be unsheltered industry for many years to come. We must keep this unsheltered industry going. But if we raise wages in sheltered industry, we make it impossible to grow as much wheat and wool or mine as much zinc and lead, and we shall not have exports enough to pay our interest and pay for necessary imports. That is the mess we are in now, with unemployment widespread and growing on every side. And we have not seen the worst of it yet.

So I come to this, that there is a certain point at any time beyond which you cannot raise wages in any industry—sheltered or unsheltered—without bringing about business depression and unemployment. If it is only a little rise of wages in a small industry, you won't be able to see the effects — they will be so scattered. But they will be there all the same. If the rise is considerable over all sheltered industry, the effects will be such that you would wish you could not see them.

* * * *

What has been said so far about wages is roughly true of salaries also. Salaries are not so quick to change as wages, but they do in the long run go up and down with the cost of living. So that just as with wages, salaries cannot be raised above a certain point in the sheltered industries, without penalising the unsheltered industries and the workers in them. It is useful to remember here that the sheltered workers include doctors and lawyers and architects and dentists, and the professions generally.

The question of falling wages must wait till my next letter.

Yours, etc.,

L. F. GIBLIN,

Ritchie Professor of Economics,
University of Melbourne.

July 10, 1930.

Why Wages Must Fall

No. 4

DEAR JOHN,—The point I got to was that wages could not rise beyond a certain point in any industry, sheltered or unsheltered, without bringing distress and unemployment into the country generally. You object first, that even if this is so, that is no reason why wages should fall.

I wish you could get really convinced of that first point—that there is always a limit at any one time beyond which wages cannot rise. Then we could begin to look for the limit and see what could be DONE to push it higher. So long as you believe that higher wages can always come like manna from heaven merely by asking loud enough for them, we shall never get any further.

If you were in a simple business, say one of a dozen who were working in partnership to cut and sell firewood, you would know well enough that the amount to be divided among you could not be more than the total value of the firewood cut, less the out-of-pocket expenses. The same thing must be true however complicated the business is. I know you have an objection there about wages being less than the work you do. I will come to that later, after the question of why wages must fall.

* * * *

I said in my first letter that real wages in the long run kept on rising but with ups and downs, one reason for the ups and downs is that business has ups and downs. When times are good, wages and salaries are rising, and profits, which are the wages of management and enterprise, are rising still more, business gets a little drunk, and the upward movement goes beyond our "certain point." Then something goes wrong—outside prices or seasons or anything — and there is a great slump. Profits not only fall but disappear altogether and become losses. Wages fall (though real wages may not at first because prices fall too), but unemployment becomes bad so that real wages do fall on the average. So there comes a period when real wages mark time or even go back (as they did in Australia in 1923) before the next period of advance.

We have just had a period when things went ahead faster than we really deserved. We have been borrowing £30,000,000 a year from oversea and spending it, and that has made wages and salaries and profits higher than what we have really earned. Then we have had high prices for wool and other exports—higher than could be expected to last—and that has made it possible to have higher wages and salaries and profits—not higher than we have earned, but higher than we could expect to earn in the future.

Now both those helps to high wages have been taken away. We cannot get the same loans oversea, and in any case we could not go on always living on borrowed money. And the prices of our exports have dropped and look like staying at much lower levels than in recent years. So we have before us a year in which we shall have very much less to spend, perhaps £50,000,000 in the first place and still less on account of the unemployment that must follow the first loss.

Now a loss of this kind is first met out of profits if it is comparatively small, and if it does not go on for very long. Profits expect to go both up and down much more than wages and salaries. Profits sometimes become losses, but you were never

asked to pay 5/ a day for the privilege of working at your job. In this case, the loss is much too big, and looks much too lasting for profits to be able to carry the whole. They will carry the greatest share in any case, but wages and salaries and all other income must bear some of the loss.

* * * *

I want to stop today at this point. We have been living as a people on more than we earned by a big margin. In future we are going to earn less (unless we work harder) because other people do not want our wool and wheat so much as they did in the last few years, and they don't lend us so much money to help out what we can earn ourselves.

We shall have so much less to live on for the next year or two at any rate that we can only stand the loss by sharing it all round. That's why wages—real wages—must take some of the strain.

I will come to your question why profits should not carry the baby in my next letter tomorrow.

L. F. GIBLIN,
Ritchie Professor of Economics,
University of Melbourne.
July 11, 1930.

The Need for Saving

No. 5

DEAR JOHN,—We left off with a very big drop in what the country will have to spend for the next year of two at any rate. I said that the loss was so big that it must be shared all round. You object that it could be taken out of profits without touching wages.

This is not an easy question, and we must begin by being clear about savings and capital. You sometimes talk as if saving was a poor, mean thing to do, and capital a ruffian who ought to be sent to gaol. I admit that saving can be out of place and that capital is greedy and wants continual checking. But we would be in a mess without them.

Thousands of new houses are wanted every year in Australia because old ones fall down, and the population is growing. Building a house means men working at brickmaking and bricklaying, timber-getting, and timber-working, painting, plumbing, and a dozen other trades. Who is to pay these men while the house is being built? No good looking to the rent of the house after it is built. They must have their wages now. They can only be paid and the house built if somebody has "saved" the whole cost of wages for getting the material and building the house.

"Saving" means not spending all you earn on things for you and your family to use. For the individual it means giving up present enjoyment for future enjoyment. For the country it means providing money to pay the wages of people who build the houses, which can only pay it back gradually over a long term of years out of the rent which men pay for the use of it. All the things which have to last for a number of years are in the same case as houses—shops and factories and other buildings, machinery, roads and railways and ships —all have to be built out of someone's savings—the money a man might have spent for his immediate use but didn't.

Even if we are making things that can be used up immediately and paid for out of ordinary wages and other income, we still want someone's savings to start us and keep us going. The farmer must find wages for himself for all the time from ploughing to marketing his crop; the flour miller must find money to pay for all the cost of growing the wheat and paying the workers in his mill up to the time the flour is bought and paid for. All this money comes out of someone's savings.

* * * *

The savings become "capital," and we need a lot of it in Australia because we are a new country, and because population is growing fast. We need so much that our own savings are not nearly enough, and we borrow the savings of other people in England. That supply has shut down, and we are the more dependent on our own savings. Naturally we have to pay people to save—to refrain from spending—and we call the payments "interest." If people were saving more than was wanted, the supply of capital would be too great, like the supply of wheat is at present, and the price—the interest—would go down. The rate of interest is fixed by the need we have for someone's savings; it must be high enough to induce people to save enough to keep industry going.

This is the only way we can get enough capital—by paying enough interest to make it worth while to save. This is always true in the long run, though for short periods the operations of the banks may disguise it.

It is true that when people have a big income, saving requires no effort, and we could probably get a lot of savings from rich people by paying only about 2 per cent. interest. But we have to pay enough to get other people to save, too, or we should not have enough savings to keep industry going. It is much the same with most things. It would pay to raise wool on the best land at sixpence a pound. But if we gave only sixpence a pound for wool, we should not get enough wool. We have to pay enough to make it worth while to grow wool on the worst land, so the best land makes a big profit. So we have to pay enough interest to get people to save who have to make some effort to do so. And we feel that the very rich man, like the owner of rich land, gets too much for his services.

* * * *

There is no way of getting out of paying high interest and high rents and yet keeping up the full stream of production. But we can remedy the worst inequalities by taxation — graduated taxation of income and land and all inherited property. We have gone a long way in the last 50 years in Australia—and in England, too—in taking by taxation the wealth of the rich man and using it for general social purposes, education, and hospitals, and roads and cheap railway travel, and many other things. I don't say we can't go further, but here again there is a limit.

Here I must leave the question for the present. We have got far enough to see the necessity of savings and capital. Now we can go on to the question whether profits could not stand all our present loss and leave wages untouched. But that must be for my next letter.

L. F. GIBLIN, Ritchie Professor of Economics, University of Melbourne.

July 12, 1930.

More About Profits and Wages

No. 6

DEAR JOHN,—We come now to the big question whether the profits of capital and enterprise are not big enough to carry our present loss without touching wages. And that leads on to the general question whether profits do not generally get too big a share of the value of all the work done in the country.

Now this is a matter in which we must get down to figures and not very easy figures, and we cannot hope to clear it up in a letter. We shall have to spend a good many evenings talking over it round a table before we get a really good answer; and I hope we shall do that. Meantime, we will get as far as possible here.

You see here in Melbourne plenty of signs of people having too much money and spending it on all kinds of luxuries—expensive clothes and furniture, fine houses and gardens, high-priced motor cars, and many other things. There is no doubt of a great deal of extravagant spending, very often by people who have not done much to earn the money they are spending. All this is bad in any case when others are going short, and particularly bad at the present time. I do not want to make out that it is a small thing and does not matter. But for our present purpose, what we want to know is how big is this amount of superfluous spending. If it were cut out, would it meet the loss of income we are suffering from? If it were divided more evenly, how much would it raise wages?

* * * *

We all get a strong impression of a great deal of extravagant or luxurious spending. But it is not easy to size it up, and the impression may be exaggerated. It is concentrated in one small area, and that makes it look big. It indicates the expenditure of visitors from the country and other States who are perhaps making their one week's splash in the year. And one motor car, which is perhaps not paid for, can cover a lot of ground in a day and make a great show.

Consider, too, the nature of profits. The people who earn profits are the people who get production going, who run factories or shops or mines or farms and give employment. Without these people there would be nothing to do in Australia but scratch a hard living from a one-man farm. Profits go up and down much more than wages or salaries. Often they disappear altogether, and often the whole enterprise fails and leaves the man or the company without even the savings they began with. There is a big risk, and therefore profits have to be big at times or no one would take the risk. Besides, the job requires special qualities of resourcefulness and good judgment, which are not required for most jobs, and therefore we have to pay well for this very necessary job or we should not get it done at all. So we naturally have lavish expenditure at the times when profits are good. Even when there are no profits at all, many men will try and make a good show in public for business reasons, though at home they may be at their wit's end to pay the butcher.

* * * *

It is no good saying luxury expenditure is large; we have to find out how large. We want to get some measure

of how much superfluous big income there is. We can get an idea in this way.

Suppose we reckon first how much it would take to pay everyone who was working at the average wage and see how much is left. There were last year in Australia about 1,854,000 men over 21 earning their living in some way, and 865,000 women and girls and boys and men under 21. Let us allow the men the average weekly wage paid in all organised trades, which was 100s. 5d. weekly at the end of 1928; and to the others the average weekly wage for women at the same time, 53s. 10d. Work this out and you will find that the total required to pay wages at these rates is £607,000,000.

Now the total income of all the people of the country a year ago (before the drop in income) was about £650,000,000. Out of this had to come £44,000,000 paid in income tax and other direct taxes. When this was taken away, there was not enough to pay every worker the average wage paid in organised trades.

And there would be no savings at all except what was saved out of incomes of £5 a week.

This result is so staggering—at least, I hope you will find it so—that I will give you the night to recover before we go on to see where it leads us.—Yours, etc.,

L. F. GIBLIN,
Ritchie Professor of Economics,
University of Melbourne.

July 14, 1930.

Why Wages Must Fall

No. 7

DEAR JOHN,—We were trying to reckon out what would be the result of dividing up all incomes equally for the 12 months ended last June, when Australian income was the highest it had ever been. We found there was just enough to pay all workers of all kinds exactly the average rate of wages ruling in the middle of that 12 months, and leave enough over to pay income tax and similar taxes. But there would be practically no savings at all, and there ought to be at least £50,000,000. Nobody would get more than £5 a week. (Pretty rough on Mr Scullin and on your friend the linotyper!) And there would be nothing at all for those people who have no occupation, but simply live on their means.

Is there anything wrong about the figures? The numbers of people working for their living are based on the last census, and cannot be far wrong. The average wage rates for December, 1928, £5/0/11 for men, and £2/13/10 for women, are those given in the last "Labor Report" by the Commonwealth Statistician. These averages have been calculated for the last 15 years; they are the averages of wages in 930 industries and 4256 occupations. The rates in these occupations are either those fixed by an industrial award or the information is supplied by the union secretary. Certain kinds of labor are omitted, particularly unorganised farming labor and casual labor. But the figure does give the average, very carefully calculated, of wage-rates for all organised regular labor in Australia. There is only one doubtful point. We don't know the average wage of those under 21 years, of whom there are about 320,000 male and 180,000 female. Those from 19 to 21 will generally be earning full wages. Those at 14 or 15 years may be getting from 20/ to 30/ a week. I have put them all at the average women's wage, and I think this is about right for organised trades working under an award. But it may be too high. If it is £20 a year too high, there would be a small contribution of £10,000,000 to our £50,000,000 of necessary savings.

* * * *

The only other figure to consider is that for total income, £650,000,000. It has been calculated by Mr Sutcliffe and by Dr. Benham, of Sydney, and their calculations would work out at about that figure for 1928-29. Many people have criticised the work, and tried to correct it, and cut a little off here and add on some there, with the result that the total has not been much changed. I admit it is not an exact figure, and the real total may be £30,000,000 more—or less. My own opinion is that the true total is less rather than more. But even if it is £30,000,000 more, we still should not have enough over to make up our present actual savings.

I think then there is no escape from the fact that if all income was divided up equally after taking out our present savings and taxation, there would not be enough to give everyone, millionaire and unskilled laborer alike, the average wage now paid in organised trades. But we know as a matter of fact that we do pay this taxation and make these savings, and that there is a good deal of income besides above the rate of £5 a week. What is the explanation?

The only possible explanation is that a great many people not working under a regular award must be getting considerably less than the average of

organised labor. These will include wage-earners on farms, and all kinds of people working on their own accounts, and particularly the farmer on one-man and two-man farms.

• • • •

Some important and unpleasant conclusions follow:—

(1) Even before the depression when our income was at its highest, it was not big enough to pay everyone, employer and employed alike, the average wage paid to organised labor. A small section was getting a good deal more than the average wage. Some part of this extra income they were earning because they were doing work which was worth it; for the other part they were doing nothing very useful in return. A much larger section of our people was getting less, many a good deal less than the average wage. So we have to conclude that organised labor was getting a larger share of the national income than it earned. So far as there were big incomes that could be cut down, the benefit should go, not to organised labor, but to farm workers and farmers and others working on their own account.

(2) If this was the position a year ago, now when we have had one-tenth or more knocked off our income, it is pretty clear that wage rates in organised labor are higher than the country can afford. The same amount of work is worth less now by a good margin. If a year ago organised labor was getting more than its fair share of the country's income, it must be still more true today.

So I think there is not much doubt that wage-rates in organised labor must fall for a while. The more readily and quickly they fall now, the sooner we shall be in a position when they can increase again to the present level and, I hope, above that.

Tomorrow I want to talk about what you can do, John, as wage-earner, good unionist, and voter, to restore and increase wages.—Yours, etc.,

L. F. GIBLIN
Ritchie Professor of Economics
Melbourne University.

July 15, 1930.

How to Get Higher Wages

No. 8

DEAR JOHN,—We were trying to find out what the result would be if all the income of the country was equally divided—the income when it was at its highest—a year ago.

First we suppose the Governments take 40 millions by taxation to provide education and hospitals and roads and so on. Next we may suppose the Governments to take the necessary savings, about 50 millions, to provide the new houses and factories and railways and machinery necessary every year to keep us all fully employed. When that was done there would not have been enough left to pay every worker the average wage earned in organised trades. And we are a lot poorer than we were a year ago.

So I think it is clear that the wage in organised labor has gone beyond that "limit" I talked about in earlier letters. Organised labor has only been able to get as high wages as it has because a lot of unorganised labor has been getting less. You have taken out of the unorganised laborer and the farmer just as much as he can stand—rather more, because you are killing him out. You can only raise wages any higher by taking it out of one another—by increased unemployment.

That's a mug's game. The sensible thing is to recognise that wage rates in organised labor have been rather above their fair share of the wealth produced in the country. With the fall in the wealth produced, they must come down. The only way to build them up again and increase them is to make the country produce more wealth.

Of course there are lots of things wrong in the present distribution of wealth that badly want remedying. Plenty to do in that direction! But the important point here is that even if they were remedied, your wages as a Unionist would not be any higher—possibly a bit lower. If you want more wages the country must produce more wealth. Here and now, in Australia in 1930, for you as a Unionist, there is no other way.

• • • •

Now for some of the things you can do to make the country more productive, and so make higher wages possible.

First for the general things that concern you as a citizen and a man with a vote. The root idea I would like to see firmly in your head is that if it costs more to grow or make a thing than it is worth, then it does not pay the country to make or produce it. And your wages are reduced by doing so. It seems obvious enough. No one willingly makes a lot of boots at a cost of £20 if he can only get £19 for them. But we grow sugar at a cost of £20 a ton which we sell for, not £19 or £18, but only £10. And you are paying to make up the loss.

It always costs the country something—and your wages suffer—when we make or grow things which are not worth the cost of making or growing. But sometimes it may be worth while to pay the extra cost. It might for example be worth while to make ammunition here at a greater cost than its worth for the sake of defence in time of war. It might be worth while to do the same thing temporarily

to establish a new industry which in time will learn to make things as cheaply as other countries. It may be worth while to do so to tide over a depression in some industry, or at any rate to ease off the shock, as with wheat-growing at the present time.

• • • •

So it is not an easy question. In these cases there is always a benefit to be gained and a cost to pay—and the cost hinders your wages from rising. What you have to do is to size up the benefit and the cost and see how they balance. The trouble is that the benefit is obvious and the people who gain make a great song about it; but the cost is spread thin over every one, and not noticed. But it piles up for every bounty and aid to production and increase of the tariff till it does seriously affect our power to pay high wages.

So be suspicious of all proposals to help production in this way. Be sure that it is costing your wages something, and try to see whether it is worth it. In the case of sugar for export, you are helping to pay to keep people at work sugar-growing a bonus of about £250 a year for each man occupied in any way in connection with the job. You might as well pension him and let him play cricket. Clearly it is not worth it. If it only cost about £20 a year per man, it might be worth it to keep the population. But in any case, in the long run it comes out of your wages.

There is a good deal to be said on this subject, but I can't take more time for it here. Tomorrow I want to talk about what you can do as a unionist to make higher wages possible.

Yours, etc.,

L. F. GIBLIN,

Ritchie Professor of Economics,
Melbourne University.

July 16, 1930.

Making Terms About Wages

No. 9

DEAR JOHN,—

Now for what you can do as a Unionist to make higher wages possible.

I got to this point, that for organised labor now in Australia the only way to higher wages was by producing more wealth per man. With our drop in income, your wages were more than your fair share of total wealth produced, and they must fall back a little to get good footing for the next upward move. The fall need not be great, but the quicker it takes place the sooner we shall be on firm ground ready to build them up again. But I do not suggest that you should agree unconditionally to a fall in wages. Far from it! You should make terms.

In every kind of work there is room for improvement. The cost of production can be cut down apart from wages, and so the wealth per worker be increased. Most of all there is room for great advance in the sheltered industries and the protected industries. The sheltered industries, as we saw, can put up prices and pass on the load to the unsheltered industries. So that, instead of worrying to do better work and get lower costs, they are tempted to take the easy course and put up prices. The protected industries in the same position can evade their troubles by getting more protection, and they, too, can put up prices. Then the unsheltered industries are depressed, the sheltered industries lose their market, and there is unemployment and decrease in wages in sheltered industries also.

• • • •

I do not say all sheltered and protected industries take this lazy course; but there is a temptation, and many of them do. Most of us have some tendency to be slack and lazy unless we are stirred up. In a complicated business waste and muddle come very easily, and it is only by hard thinking and determination they can be kept down. Up till now you have rather connived with employers and managers over too costly production. So long as you got Union rates and Union conditions, you did not bother. Now the time has come to throw your weight on the other side. I think you must still say, "Why should our wages come down? Why can't they be increased?" and hold out for an answer. But you must be able to understand the answer when it comes, and willing to act on it.

You must keep up your pressure for high wages, because that pressure stirs up the managers to efficient production. But you must be able to recognise facts without breaking your head against them. The pressure for high wages can work well in unsheltered industry so long as it recognises facts. But in sheltered and protected industry it is liable to lead to higher prices, which recoil on your own heads. So in these industries you must press for higher wages with no increase of prices. In general, the wage that can be paid in unsheltered industry should set the limit in sheltered industry also, and there is need of close working together for unions in the two kinds of industry to get the best results all round.

Your terms should be "Cards on the table; and if you can show us that higher wages are impossible or even that lower wages are necessary we will agree." For that you must have delegates who understand accounts and have some knowledge of business and

some practical judgment; and you must trust them. You have plenty of able men in your Unions. Hitherto their time and attention has had to be given too much just to keeping you together and in good heart. Now they should be giving their minds more to the understanding of business administration. Remember Lenin's saying that Russia could only be saved by accountancy. Courses of training should be taken up by younger men who hope to be labor leaders; and here the University can help.

* * * *

I know it's not going to be easy. It will not be easy all at once to find men who can properly represent you in this sort of free conference with employers and managers. It is going to be very hard for you to trust them and be loyal to the arrangements they make. They will have confidential information given them which they cannot pass on to you. They will examine books and learn things about profits and losses which they must keep to themselves. And you have to learn to trust the men you have chosen for this job when they say, "We have examined the whole business and there is no hope of a rise"—or even in extreme cases, "We must take a cut in wages." It will not be easy, and will not come all at once; but it is worth trying.

The great point is that the facts about your industry, its costs and profits, should be known all the time —not just at a crisis—so that you can feel sure that there's no catch in it when a crisis comes. The facts about a single business may have to be confidential, but those about the whole industry — say, woollen mills or bakeries — can and should be made public. You ought to know and understand them, and the general public which buys the goods ought to know also. This has been done in some industries in England, particularly potteries and wire-working, with very good results to wages and the prosperity of these industries generally. There is a little book called "The Facts of Industry," written by a Committee of employers, Union leaders and economists in England, which has a great deal of information on what is and can be done in this way. It is published at 1/, and should be studied by everyone concerned in labor questions.

Tomorrow, in my last letter, there are a few odds and ends to clear up before I say good-bye for the present.
—Yours, etc.,

L. F. GIBLIN,
Ritchie Professor of Economics.
University of Melbourne,
July 17, 1930.

A Limit to Wages

No. 10

DEAR JOHN,—
This is my last letter, and I want to go over some of the main points.

First, we had the distinction between unsheltered industries, like wheat-growing and metal mining, which have to produce at a price fixed outside Australia. So, if wages or other costs go beyond a certain point, they cannot carry on. The sheltered industries — like coal-mining and trams and retail shops — can raise prices if wages go up, but they pass on the load to the unsheltered industries and put them out of action to some extent. Then the sheltered industries themselves lose their market—there are fewer wheat growers and metal miners to buy the sheltered goods, so there is loss of income and unemployment all round in sheltered and unsheltered industry alike.

So the limit of wages in unsheltered industry sets a limit in all other industry; and both for fairness and for prosperity it should be about the same limit. But it isn't.

* * * *

Of all people earning their living in Australia about half earn wages under some sort of collective agreement or industrial award. The average wages of this half of the workers of Australia last year was £5 a week for men and £2/14/- for women. If all the rest of the income of Australia had been pooled and the necessary taxes and savings taken out, there would not have been enough left to pay the other half of the workers of Australia the same average rate that is paid in wages to organised labor. We know that some part of this "other half" was getting very much more than this from rents and interest and to a smaller extent from profits and high salaries. So the rest of the "other half" must be getting considerably less than the average wage of organised labor.

We know in fact that this is so. We know that the wages of farming wage earners are not often more than £3 a week. And the farmer, in spite of long hours and the need for skill and experience, often does not earn even that when he has paid the rent or interest on his land.

So the position has been precarious. Wages for organised labor have kept up only because others were getting much less. Whenever the others struck and refused to work at these low rates, the whole wage structure was bound to collapse. The fall in export values—wool and wheat and metals—has now brought the crisis. The low earnings in unsheltered industry has brought great and increasing unemployment in all industry. In organised labor, for last quarter there were 18 men unemployed out of every 100—more than one in six.

So you see average wages have come down very seriously. Eighteen per cent. unemployment is equal to a reduction of 2/6 per day in the basic wage on the average. It would clearly be better to have 1/ a day less all round than 18 per cent. of unemployment.

Wages then have been too high and must come down for a while. But a mere fall in wages won't mend things. A drop in wages is one of the conditions necessary to restore industry, but it won't do much by itself. It must be accompanied by decrease in prices. We want decreasing costs and decreasing prices passed right through to the export and other unsheltered industries, so that they can stand up to the increasing competition of other countries. Wages are only one element of costs, and often not the most important. There is room for improvement at every stage of production, particularly in the sheltered and protected industries. They want continual pressure to efficiency and you are the people who ought to press, because higher wages depend on it. When you are clear that there is a limit to wages and have learned to recognise that limit when the employer gives you the facts, then you are in a position to apply the pressure. Then you can say "Higher wages without higher prices or the reason why not," and the employer will be bound to meet you. There are some ante-diluvians left still, but in general he will be glad to meet you and get down to facts.

Facts are what you want. Waving banners on either side, in the streets or in leading articles, is a poor game and takes us nowhere.

Facts, John, facts!

Yours, etc.,

L. F. GIBLIN,
Ritchie Professor of Economics,
Melbourne University.

July 18, 1930.

P.S.—You say I am putting all the blame for our present troubles on to you. Certainly not! I think "the other fellow" is more responsible, but in these letters I have been thinking only of what you can do to help. You would be wise to think on that same line. Ever worked in big timber? With an 8-foot felling saw on high chopping boards? If you are not good at it, the saw sticks in a big cut. If you begin to think the other fellow is pulling down or feeding too hard, and he thinks the same of you, you will both lose your tempers, the saw will really stick and you may have to chop it out. If you make up your mind it's your fault, you won't lose your tempers and you will probably straighten up the cut and get it through. It is the same whenever there are two sides to a job. Most people mean well enough, but not many of us are angels—or devils.—L.F.G.

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